A MONTHLY DIGEST OF KEY STATE, FEDERAL AND INTERNATIONAL TAX DEVELOPMENTS TO KEEP YOU ABREAST OF CURRENT AND PENDING TAX CONCERNS

TAX INSIGHTS

Highlighting tax developments of interest to today's companies on the move.

In this issue:

TAX REFORM

Timing of tax reform

By: Dave Kautter, Partner

One of the top priorities for President Trump and the Republican-controlled Congress is tax reform. President Trump made tax reform one of the key issues in his campaign, and although Senate Republicans have not released a comprehensive plan, House Republicans issued a comprehensive tax reform blueprint as part of their *A Better Way* proposal last June. President Trump recently said that he plans to issue a tax reform plan in the next two to three weeks. That proposal will play a critical role in the tax reform debate and may well turn the debate in one direction or another.

The most controversial proposal in the tax reform debate so far is the proposal in the House *A Better Way* blueprint to enact a border adjustment tax (also referred to as a destination-based cash flow tax). This has split the business community and members of Congress, including members of the Republican Party, who control both houses of Congress. The Trump administration has said it is "looking seriously" at the House proposal including the border adjustment proposal. At this point, it is impossible to predict what form final tax reform legislation will take, although there still seems to be a strong consensus to take up individual and business tax reform together.

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In addition to the question of what will be contained in any final tax reform legislation, there is the question of the timing of the tax reform process. The decision by the president and Congressional Republicans to proceed with repealing and replacing the Affordable Care Act as the first order of business this year means that the timing of tax reform has been pushed back. The leadership in the House has said its goal is to produce a final tax reform bill by the end of July. That would mean that the Senate would take up tax reform when Congress returns in September from its August recess. It is unclear whether the Senate would conduct hearings on tax reform while the House is considering tax reform, which could speed the process along, or whether the Senate will wait until the House finishes its work. However, the Senate Finance Committee Chair recently said hearings on the border adjustment tax will not be held until the House's proposal is in writing, which implies they may wait. If the Senate did not start its tax reform decision-making process until September, it likely will be November or December before we see final tax legislation passed by Congress and signed by the president. Adding to this uncertainty, Secretary of the Treasury Steven Mnuchin said in a recent interview that he would like to see Congress pass tax reform legislation before it leaves for its August recess. He also acknowledged that passage before the August Congressional recess was an "ambitious timeline" and that tax reform legislation could slip to later in the year.

The tax reform process is notoriously fluid and unpredictable but, as of now, it looks like the earliest tax reform legislation could work its way through Congress is late July. Given the differences among Republicans, the controversial nature of some of the proposals and the fact that the Treasury Department is not yet fully staffed, an August timeline seems to be optimistic. At this point, it seems likely that it may be late 2017 before we have final tax reform legislation.

The House Tax Reform Blueprint: What would the building inspector say?

By: Don Susswein, Principal

This article discusses some of the domestic issues presented in the House GOP Tax Reform Blueprint. For more information about the Blueprint's proposed impact on international taxation, see our article, [Border Adjusted Tax proposals may impact exporters and importers].

The Republican leadership of the House of Representatives, and the leadership of the Ways and Means Committee, have advanced an innovative tax reform proposal that is commonly referred to as the Blueprint. As expected of nearly all income tax reform proposals, it would reduce individual income tax rates and the number of tax brackets, paying for those rate reductions with a broadening of the tax base. For example, the Blueprint would reduce the top individual income tax rate from 39.6 percent to 33 percent, eliminate the alternative minimum tax, and eliminate most individual, non-business deductions, other than those for mortgage interest and charitable donations. It does not appear that the existing social security tax on earnings above the "wage base" of approximately $120,000 would be affected. The Blueprint's most important innovation, however, is its novel approach to the taxation of business and investment income, described more fully below.

How the Blueprint would change the taxation of business and investment income

Instead of putting business and investment income in the same "bucket" as income from personal services, and subjecting it to the same graduated rate schedule from 0 percent to 33 percent, the Blueprint purports to move in the direction of a consumption tax by reducing the top tax rates on business and investment income earned by an individual, below the top tax rates that would apply to the same individual's income from wages, salaries or other types of personal service income. In particular:

- Capital gains of individuals and qualified dividends would enjoy a 50 percent exclusion, to produce an effect similar to the reduced capital gains rate of current law, resulting in a top tax rate of 16.5 percent for individuals otherwise subject to the 33 percent top rate.
- The same 50 percent exclusion would apply to interest income.
- The operating income of non-corporate businesses (such as partnerships, LLCs, S corporations, and sole proprietorships) would be taxed at a top rate of 25 percent.
- The corporate tax rate would be reduced to 20 percent. However, when added to a maximum 16.5 percent tax imposed on corporate dividends (or capital gains from the sale of corporate shares) the combined maximum individual and corporate tax imposed on corporate earnings distributed to individuals would be 33.2 percent. Thus, an approximate 8 percent rate differential would exist between the tax imposed on business income earned by a C corporation, and the top rate for income earned by a proprietorship, partnership, LLC, or S corporation.
- It is unclear how the existing 3.8 percent tax on net investment income would be affected. Although that tax may be repealed if the Affordable Care Act (ACA) were repealed, the associated revenue may be needed to fund a replacement for the ACA[1].

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1 From the Blueprint: Finally, this Blueprint assumes that the substantial tax increases enacted as part of the Obamacare law will be repealed as part of the proposal of the Health Care Task Force. Repeal of economically damaging tax increases such as the additional 3.8 percent tax on net investment income, the additional 0.9 percent payroll tax, the medical device tax, the health insurance tax, and others should not be paid for with other economically damaging tax increases. Rather, they should be paid for by repealing the massive new entitlement program created by Obamacare. Thus, this Blueprint envisions a pro-growth tax code without either those Obamacare taxes or other taxes to replace them.

To read more, go to: http://rsmus.com/what-we-do/services/tax/lead-tax/the-house-tax-reform-blueprint-what-would-the-building-inspector.html

TRENDING IN TAX

Understand common complexities when applying bonus depreciation

By: Ryan Corcoran, Senior Manager; Lori Anne Johnston, Senior Associate; Justin Silva, Senior Manger, and Christian Wood, Principal

The authority for additional first-year depreciation (commonly referred to as "bonus" depreciation) is found in section 168(k) of the Internal Revenue Code.[1] Under that section, taxpayers may claim, in the year qualified property is first placed in service, a deduction equal to 50 percent (in 2016 and 2017) of the adjusted basis of that qualified property as an accelerated first-year depreciation deduction.[2] The remaining basis is then depreciated under the standard rules for the property type, beginning in that first year. For example, a $100,000 piece of qualified property having a five-year life under the Modified Accelerated Cost Recovery System (MACRS) that is placed in service during 2016 or 2017 will have allowable depreciation expenses as follows:

	With Bonus Depreciation	Without Bonus Depreciation	MACRS recovery percentage
Bonus Depreciation	50,000	- - - - -	50% of total cost
Year 1 MACRS	10,000	20,000	20% of remaining cost
Total Year 1 Depreciation	**60,000**	**20,000**	
Year 2 MACRS	16,000	32,000	32% of remaining cost
Year 3 MACRS	9,600	19,200	19.2% of remaining cost
Year 4 MACRS	5,760	11,520	11.52% of remaining cost
Year 5 MACRS	5,760	11,520	11.52% of remaining cost
Year 6 MACRS	2,880	5,760	5.76% of remaining cost
Total Depreciation Years 2-6	40,000	80,000	
Grand Total Depreciation	**100,000**	**100,000**	

While the concept of bonus depreciation is fairly simple, its application does have some complicated rules for which taxpayers should be aware. The sections below highlight a few of these complexities with the ultimate goal of providing the reader a roadmap to the most common considerations taxpayers should address when applying the bonus depreciation provisions.

The default rule

Terminology such as "special," "additional allowance," "taking," or "claiming" bonus belie the actual nature of bonus depreciation as the default rule for qualified property. Put simply, taxpayers must take additional first-year depreciation when they place qualified property into service unless they affirmatively elect out of doing so, on a class-by-class basis, annually. This allows taxpayers the ability to choose which classes of asset bonus depreciation is claimed, and if desired, which will be depreciated without bonus.

While taxpayers typically hold the acceleration of deductions as an advantageous tax planning strategy, certain taxpayers may prefer that bonus depreciation not apply. These can include taxpayers with net operating losses (NOLs) (wishing to minimize current deductions and maximize future deductions after NOLs are utilized), those anticipating an increase in tax rates (again preserving maximum deductions for future years), or those who wish to defer deductions into later years for other planning purposes to offset future income. These taxpayers may affirmatively elect out of bonus by attaching a statement to their tax return each year that new qualified property is placed in service, stating that bonus depreciation is being forgone for the specific asset classes selected.

To read more, go to: http://rsmus.com/what-we-do/services/tax/lead-tax/accounting-methods-and-periods/understand-common-complexities-when-applying-bonus-depreciation-.html

How well do you understand your equity compensation options?

Learn how different equity compensation plans meet different needs

By: Anne Bushman, Senior Manager

Download article

Equity compensation includes various methods of compensating employees with payments tied to equity value. Because it ties compensation to the value of the company, it can be a great tool for incentivizing employees. The methods may vary by employee, company or both. If your company is beginning to explore compensation methods outside of standard salaries and bonuses, you need to understand the equity compensation options available and the circumstances in which they are most beneficial.

The most commonly used equity compensation options include:

- Phantom stock
- Stock appreciation rights
- Company stock
- Restricted stock
- Incentive stock options
- Nonqualified stock options
- Stock bonus and employee stock purchase plans

Employers at various stages of a business life cycle may benefit from adding equity compensation plans. Various equity compensation methods can provide great incentives to both the employees receiving them and the employer providing them through increased engagement that can boost company performance. The particular type of equity compensation that will fit a given situation will vary depending on the employer's goals and the applicable facts and circumstances. Careful consideration should be given to choosing the appropriate type of compensation and complying with any applicable rules so that both parties can appropriately benefit.

EVENTS AND WEBCASTS

Partnership audits: What you should do now

LIVE WEBCAST | March 22, 2017

Presenters: Patti Burquest, Principal, Don Susswein, Principal and Ben Wasmuth, Manager

New IRS audit rules come into effect for most partnerships starting with the 2018 tax year. Although the associated tax returns will not be due until 2019, there is less than a year for investors and managers to address the business issues and potential conflicts of interest that may arise beginning in January 2018, regarding potential audits of uncertain tax positions.

Partnerships, their partners and their managers may want to consider addressing potential conflicts and business issues now, instead of waiting for controversies to arise.

Join us on Wednesday, March 22 as our panel outlines the business and tax issues created by the new IRS audit rules and possible ways to address them, including:

- What steps are needed to avoid entity-level taxation?
- When may entity-level resolution be the preferred approach?
- What are the responsibilities, rights and potential liabilities of professional managers or managing partners/members?
- What is the decision-making process for determining whether to accept, or contest, proposed IRS adjustments?
- What modifications to agreements or side arrangements, or disclosures, should be considered?

UPPO Annual Conference, March 19–22, 2017, in Austin, Texas

Join us at the premier event for professionals responsible for unclaimed property. RSM will be a sponsor of the 2017 UPPO Annual Conference. The instructor lineup includes RSM's Yudit Freda, Catherine Del Re and Jenn Arias. Learn more about managing your unclaimed property risk by participating in this session or stop by our booth to get timely information and insights to achieve and sustain compliance with unclaimed property laws and regulations.

Unclaimed Property 101: The Calm Before the Storm
Sunday, March 19, 4—5 p.m.
Featured RSM speaker: Jenn Arias, Senior Manager

The Pony Express in the 21st Century
Tuesday, March 21, 11:15 a.m.—12:15 p.m.
Featured RSM speaker: Catherine Del Re, Partner

An Exemption to the Rule
Tuesday, March 21, 1:30—2:20 p.m.
Featured RSM speaker: Yudit Freda, Senior Manager

Tax Executives Institute's Midyear Conference, March 19–22, 2017, in Washington, D.C.

RSM is a Gold Sponsor of the 67th TEI Midyear Conference — four days of high-quality programming, powerful networking opportunities and urgent insights tailored to the business priorities of the tax professionals in attendance. Members of our Washington National Tax team will be on hand to lead sessions and answer your questions.

Economic Nexus – The Assault on *Quill and Other Developments*
Monday, March 20, 11:15 a.m.—12:15 p.m.
Featured RSM speaker: Brian Kirkell, Principal

Federal Excise Taxes – Navigating the Complexities
Wednesday, March 22, 10—11 a.m.
Featured RSM speaker: Tom Windram, Partner

2017 National Center for Employee Ownership Conference, April 4–6, 2017, in Denver, Colorado

As a sponsor of the 2017 Employee Ownership Conference, RSM will be on site to answer any questions regarding ESOPs, including administrative challenges, accounting, legislative and regulatory updates, taxation, plan design and more. Additionally, two leaders from our ESOP practice will be co-presenting with other speakers at the conference.

Warrants in ESOP Transactions – Accounting and Tax Considerations
Tuesday, April 4, 9–10:15 a.m.
Featured RSM speaker: Becky Miller, Director

Using ESOPs to Structure Acquisitions and Divestitures in an Uncertain Economy
Wednesday, April 5, 1:30–2:45 p.m.
Featured RSM speaker: Anne Bushman, Senior Manager

Federal Tax Course, April 24–28, 2017, in E. Lansing, Michigan

RSM is proud a sponsor of the 2017 Federal Tax Course – Level I. Designed as an introduction to the U.S. federal income tax system, TEI's Federal Tax Course — Level I is suitable for corporate employees with fewer than five years of business tax experience. Core corporate tax compliance issues, basic tax planning, and tax research, as well as the fundamentals of financial accounting for taxes, will be addressed.

Tax controversy update: Hot topics for 2017

RECORDED WEBCAST | February 15, 2017

By: Patti Burquest, Principal and David Click, Senior Director

2017 will undoubtedly be a year of change. While much of that change is still unknown, we do know some areas of IRS controversy that will be important to watch.

Patti Burquest and David Click return to kick off the year with a look at hot topics in tax controversy, so that you can be prepared and avoid error that may create risk.

Discussion topics include:

- Fishing expedition IDRs – how to react when you see the term "any and all"
- LB&I campaigns – what to expect from the first release
- New partnership audit rules when and how to make an early election in 2017

Download webcast slides

SUCCESSION PLANNING

3 big questions about your business succession plans

VIDEO | January 19, 2017

By: Chris Bradford, Partner, Michael Ferraro, Partner and Chad Tramp, Partner

As a business owner, you are focused on the growth of your business. Have you given your business succession or transition plan adequate attention? Our private client services team talks about the questions every business owner needs to be able to answer.

3 big questions about your business succession plans: What you need to know...in a nutshell

Planning for and managing through a business transition plan includes weighing many different options and many times, conflicting options. Understanding your goals is critical, including who you want to run your business when you're gone. The timing of your exit is also important. These decisions must be guided by facts and objectivity.

Having a good business succession plan will help to maximize the value of your business and will also help to transition your business to the next owner.

There are three main questions that you've got to answer in order to make sure that you have a good plan.

1) Is your business is ready for new ownership?

You need to begin by making sure your financials are in order. You need to make sure that your operating ratios are representative of how the business is functioning, and it's functioning at its peak performance. You need to make sure that there's complexity of your financials and such, where a potential buyer could understand them.

You really should consider sell side due diligence in order to get ready for the potential transaction and try to maximize the value for the business.

Industry and economic landscapes can constantly change. It's important that you monitor those landscapes and those changes and make sure that you're able to react to that with your business, so that you're not forced to do a transaction when the time is not right for you.

Internal dynamics can also make a difference when you're transitioning your business. You need to know who the next leaders are going to be for your business, and you need to be thinking about that 18 to 24 months before the event occurs, so that you have time to properly plan for it and make sure that those future leaders are ready, willing, and able to take over the business when the time is right.

2) Are you financially and emotionally ready to step away?

Accepting a realistic value for your company can be tough but critical. Many times this value is inflated by the business owner's emotions and accepting the lower value can be a bitter pill to swallow.

Business owners also underestimate how much their personal identities are tied to their professional lives. Be clear on your role with the company post-sale.

3) How will you preserve and enjoy the rewards of your efforts?

Your business is probably your most valuable asset. Understanding the impact of a transition of your business to your finances is critical. Wealth planning, tax planning, understanding the impact to your lifestyle are all very important aspects of a transition, so the sooner that you start planning for that and understanding the impact, the better.

Visit our Business Succession Planning resource center for more insights.

FROM THE BLOG

Co-sourcing and the corporate tax function: Getting it right (video)

More states requiring driver's license data as e-file fraud protection

A quest for transparency: Transfer pricing for the new economy (video)

Research tax credit: Increased scrutiny follows credit permanence

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